

BELLSOUTH

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June 6, 1996

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Ex Parte

Mr. William F. Caton
Acting Secretary
1919 M Street N.W., Room 222
Federal Communications Commission
Washington, D.C. 20554

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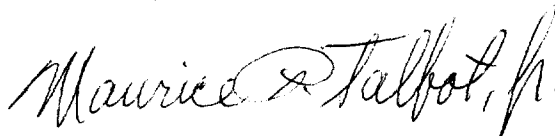
RE: Ex Parte Meeting on Universal Service; CC Docket No 96-45

Dear Mr. Caton:

Today, representatives of BellSouth met with James Bradford Ramsay, Deputy Assistant General Counsel of NARUC, and member of the Federal-State Joint Board staff in CC Docket No. 96-45 to discuss BellSouth's position in the above- mentioned proceeding. The attached document was provided to Mr. Ramsay as an aid to the discussion. Representing BellSouth were Messrs. P. Martin and R. DeYonker and Ms. M. Henze.

This notice is being filed today in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,



Maurice P. Talbot, Jr.
Executive Director - Federal Regulatory

Attachment

cc: James Bradford Ramsay

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BellSouth's Proposal for a Federal Universal Service Fund

Need to Make Implicit Support Explicit

- Telecommunications Act of 1996 requires that universal service support be explicit, sufficient, and sustainable
- Most support today is implicit, and will not be sustainable in a competitive environment
- Need to replace current federal universal service support mechanisms with explicit, sufficient and sustainable mechanism
- Telecommunications Act requires both state and federal mechanisms

Key Requirements of any New Funding Mechanism

- Should not shift burden for funding universal service between jurisdictions
- Should generally be revenue neutral upon implementation
- Purpose should be to replace current implicit support with explicit support

Universal Service Funding

- Three major components of Interstate fund
 - » Core Fund
 - Social Pricing Fund
 - Underdepreciated Plant (COLR)
 - » Education and Health Care
 - » Low Income

Core Universal Services

- **Definition includes residential voice grade basic local exchange telephone service**
 - » **Single Party Service with Directory Listing**
 - » **Touch Tone**
 - » **Access to Emergency Services**
 - » **Access to Operator Services**
 - » **Access to Directory Services**
- **Total Support calculated on an unseparated basis**
- **Distinct split made between Interstate and Intrastate components**
- **Interstate support initially set equal to implicit Interstate CCL and RIC, DEM Weighting, Long-Term Support and explicit support from current USF Fund**

Core Universal Services

Replace current implicit support with SLC rebalancing
and universal service fund

- » One possibility would be to transition to maximum \$6.00 SLC over four year period, as proposed by USTA
- » Deaverage SLC and universal service support into wire center groupings where support per line varies based on cost characteristics

Core Universal Services

- **All Interstate providers assessed on the basis of Interstate retail revenues less universal service revenues (SLC)**
- **Carriers must meet certain criteria to be designated as “eligible” for support**
 - » **offer universal service on a standalone basis throughout a defined serving area**
 - » **advertise the availability of service throughout serving area using general distribution media**
 - » **subject to service provisioning rules**
 - » **the carrier may use its own facilities or a combination of its own facilities and resale**
- **Support to be provided on a “per line served” basis to any eligible carrier**

Core Universal Services

- BellSouth proposes that support always go to the facilities based carrier when resale of local exchange service is involved
- State Commissions to determine serving areas
 - » Costs vary between rural and urban areas
 - » Serving areas should reflect cost differences
 - » BellSouth recommends wire centers for determining universal service support

Core Universal Services

- Size of fund should be based on difference between actual embedded costs and revenues from universal service
- Portability of subsidy ensures efficient provision of service
- No proxy model has yet been developed which adequately replicates actual costs

Size of Federal Universal Service Fund

- Core federal universal service fund would equal about \$7.7 billion
- Core fund size could be decreased by up to \$3 billion through SLC increases
- Education fund would average \$1.4 billion per year over the first ten years (based on partial classroom model and telecommunications services only)

Consider SLC Increases to Minimize Fund Size

- Interstate SLC has been \$3.50 since 1989
- When SLC was implemented (late '80s), penetration levels increased
- Any increase in the SLC would be offset by a decrease in access charges
- IXCs should have obligation to flow through access charge reductions
- A modest gradual SLC increase would not affect affordability
- LifeLine assistance should be increased to match any increase in the SLC, thereby reducing overall expenditures for the low-income
- Rate rebalancing is part of the transition to a competitive environment

Education - The Kickstart Approach

- **T-1 connection to each school**
- **Half the classrooms connected with networked computers (1 computer per 5 students)**
- **McKinsey & Co. Estimate:**
 - » **Average annual cost for telecommunications services:**
\$12,120/school



Education Fund

- **BellSouth recommends a flexible discount approach based on universal service funds determined by the KickStart Initiative**
 - » **Overall fund size based on one of the KickStart models (e.g., partial Classroom model)**
 - » **Maximum flexibility for schools**
 - » **Allocated fund dollars through a flexible discount provides appropriate flexibility for schools to determine their individual needs and match funds to meet those unique needs**
 - **In effect, schools determine the level of the discount for each service**

Education Fund

- Provided to
 - » Elementary and secondary schools (K-12)
 - » Libraries
- Defined services proposed by BellSouth
 - » Connectivity to voice grade exchange service
 - » Connectivity for transport up to DS1 level

Education Fund

- **Overall approach**
 - » **Credit arrangement (Flexible Discount)**
 - **Establish fund size based on KickStart model**
 - **Allocate fund dollars to states (e.g.- based on per pupil calculations)**
 - **Allocation can be modified to reflect income level or population density**
 - **State administers for schools within state**
 - **Can aggregate funds on school district or higher basis to further coordinate purchases (more market power)**
 - **Further ensures equity among schools within state**

Education Fund

- Schools may use fund dollars for any available regulated service included in definition**
 - Inside wiring must be addressed outside the universal service fund**
- Services purchased at tariff (or market) rates**
- Bona Fide service request process**
 - » Minimizes uneconomic or untimely requests**
 - » Allows state to coordinate requests as part of an overall education plan**

Education Fund

- **Funding**
 - » **Explicit funding required**
 - » **Consider surcharge on customer bills for all providers of Interstate service**
 - » **Federal universal service support mechanism may cover Intrastate discounts**
- **Library Fund similar to Education**
 - » **Size determined by KickStart type calculation**
 - » **Allocate dollars on per library basis with variations to address rural, urban or low income distributions**
 - » **Flexible discount methodology provides customer flexibility to determine needs and level of discount for each service**

Key Recommendations

- Core funding: Eliminate Interstate CCL and RIC, USF, DEM weighting and LTS through combination of SLC rebalancing and new federal universal service fund
- Education and libraries funding: Make decision that Kickstart approach (flexible discount and fixed fund size) is the way to proceed; work out details in further proceeding
- Deal with advanced services in 706 proceeding

Health Care

- Services to be provided in rural areas at rates reasonably comparable to urban rates
- Any difference to be credited toward contribution to universal service fund
- Recommend Transport of up to DS1 speeds as definition

Advanced Services

- Basic telephone service line and modem allows access to the Internet and Advanced Services
- Deployment of Advanced services should not be mandated. The marketplace should be allowed to provide them in a timely and efficient manner
- Section 706 Notice of Inquiry
 - » FCC must initiate within 2 1/2 years from enactment of 1996 Act (by August 8, 1998)
 - » NOI must be completed within 6 months